FEDERAL ENERGY ADMINISTRATION
WASHINGTON, D.C. 20461

September 27, 1974

OFFICE OF THE ADMINISTRATOR

MEMORANDUM FOR: Henry Kissinger

FROM: John C. Sawhill
Administrator

SUBJECT: Short Term Actions in Response to World Oil Prices

Attached is a memorandum which I forwarded to the President this evening. I feel that it contains issues that should be considered at your meeting with the President at Camp David this weekend.

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MEMORANDUM FOR THE PRESIDENT

FROM: John C. Sawhill
Administrator

SUBJECT: Short Term Actions in Response to World Oil Prices

The information which we have recently collected on international oil company profit margins and the preliminary findings of FEA's Project Independence Blueprint have important implications for your meeting this weekend with foreign and financial ministers at Camp David.

Background

FEA's import monitoring system has indicated that current delivered prices of imported crude oil are averaging $13 per barrel, or over $1.00 higher than a calculated figure based on costs of foreign oil, transportation rates, and historical profit margins. The result may be an unjustified cost to the U. S. consumer of about $100 million per month as well as a possible adverse effect on our balance of payments.

FEA's preliminary findings in the Project Independence Blueprint suggest that there are no energy policy options available to the U. S. which are likely to reduce substantially the need for OPEC oil during the next two years, even at $11 prices. This is due to the long lead times associated with significantly reducing U. S. energy demand and increasing supply unless we are willing to incur the economic impact and disruption of massive

government intervention in domestic energy markets. For countries with few domestic energy supply alternatives, there is less opportunity for significantly reducing their import demands even by 1980-85. Emergency storage and conservation programs can help, but they have two key limitations. First, building up storage will take a few years, require more imports and thus sustain higher world oil prices. Second, mandatory conservation, although necessary, has limited short term effectiveness because of the substantial price induced conservation we are already experiencing.

Recommendations

These findings indicate that there is little we can do in the short term to reduce our dependence on OPEC oil. Consequently we must move quickly and decisively to reduce world oil prices.

1. Immediately impose a cap on landed oil costs under FEA's pricing authority, the savings from which can be passed on to U.S. consumers. This action will not only help in the fight against inflation but will also put downward pressure on world oil prices.

2. Initiate a series of emergency conservation actions such as mandatory temperature reduction in oil-heated homes, a gasoline excise tax, mandatory lighting standards, etc., to cut imports.

3. Major American international oil companies and producer countries should be informed that the USG is going to become actively involved in international oil negotiations. As part of this effort we should take immediate steps to accept Saudi Arabia's invitation for a few key consumers and producers plus Brazil, India, and Zaire to meet on the issues between us. FEA has a major study underway on this issue and will have detailed suggestions within several weeks.

4. In this negotiation process the USG should be prepared to make certain concessions in order to encourage producer countries to reduce prices. These concessions could include:

° An indication that complete elimination of the concession system by the producer countries would not be considered an unfriendly act.

° An indication that a move towards a single price for world oil would be welcomed. This would permit the producer governments to maintain revenue levels while at the same time the price of oil would fall internationally.

° A favorable response to their justifiable economic development plans.

° A review by the USG in concert with other producers and consumers of the alternative ways of fashioning a price index to relate oil prices to general economic conditions including abilities to pay.

I am preparing a detailed analysis of the cap on landed oil costs and energy conservation program and will make these available next week. I would be glad to discuss this with you at your convenience.